



## **Financing Local Government: Income Tax as Source of Revenue**

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**Commissioner**



# Outline

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- History, Basics, and Uses of Local Income Tax
- Legacy LOITs (CAGIT, COIT, CEDIT)
- New LOITs (HEA 1478-2007)
- LOITs



# Local Option Income Tax: History

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- Indiana first allowed local governments to use income taxes in 1974 (Bowen Tax Reform) to reduce property tax reliance.
  - County Adjusted Gross Income Tax (CAGIT) provided local governments an alternate funding mechanism
- During the 1980s, two more local income taxes were created: County Option Income Tax (COIT) and County Economic Development Income Tax (CEDIT).
  - COIT added revenue for general spending
  - CEDIT added revenue for economic development and capital projects
- All counties (except Lake) have imposed a local income tax to be used for property-tax relief or general governmental purposes.



# Local Option Income Tax: “Legacy”

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Three (3) types of “Legacy” LOITs with different purposes:

- **CAGIT** dedicates percent of total revenue toward property tax replacement credits, including taxes levied by schools. The remaining percent is distributed to local governments excluding schools.
- **COIT** is used for local governments and **not** shared with schools
- **CEDIT** is primarily used for economic development, debt service, capital projects and homestead credits

**All counties (except Lake) have imposed legacy LOITs to be used for property-tax relief or general governmental purposes.**



# Local Option Income Tax: Legacy CAGIT

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## County Adjusted Gross Income Tax (CAGIT)

- Adopting Authority: County Council
- Adopting Period: April 1 – July 31
- Income Tax Rate Effective: October 1 of Year Adopted or Year Tax Rate is Increased



# Local Option Income Tax: Legacy CAGIT

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## CAGIT :

- Certified Distribution:
  - Distributed to taxing units as local property tax replacement credits (LPTRC) and certified shares.
  - Allocation of LPTRC and certified shares to taxing units is based on taxing unit's property tax levy.
    - LPTRC are used by all units of government for property tax relief.
    - Certified shares are used only by civil taxing units (not schools), in part, for additional property tax relief and, in part, for general government purposes.



# Local Option Income Tax: Legacy CAGIT

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- Allocation

- Distribution is made from CAGIT special account (within state general fund) in equal shares in May and November (monthly in 2009)

- Tax Rate

- 0.25% for nonresident county taxpayers
- 0.5%, 0.75%, or 1.0% for resident county taxpayers
- County council may decrease CAGIT rate by increments of 0.1%



# Local Option Income Tax: Legacy CAGIT

- Percentage of certified distribution allocated as LPTRC or certified shares depends upon CAGIT rate
  - Rate for county residents on August 1 of the calendar year that precedes by 2 years the year in which the certified distribution will be received (e.g., CAGIT rate on August 1, 2007 for distributions in 2009).

## **Certified Distribution Allocation**

(based on CAGIT rate for resident county taxpayers)

CAGIT rate	LPTRC	Certified Shares
0.5%	50%	50%
0.75%	33 1/3%	66 2/3%
1.0%	25%	75%





# Local Option Income Tax: Legacy COIT

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- **County Option Income Tax (COIT)**
  - Adopting Authority: County Income Tax Council
    - COIT council consists of county council and each city/town in county with votes allocated proportional to population.
  - Adopting Period: April 1 – July 31
  - Income Tax Rate Effective: October 1 of Year Adopted **or** Year Tax Rate is Increased



# Local Option Income Tax: Legacy COIT

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- Certified Distribution:
  - To fund the operation of public communications systems and computer facilities districts;
  - To fund the operation of public transportation corporations;
  - To finance certain economic development project bonds;
  - To fund certain redevelopment initiatives in Marion County; and
  - To make allocations of distributive shares to civil taxing units (not schools).



# Local Option Income Tax: Legacy COIT

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## Certified Distribution (continued):

- Amount of shares each civil taxing unit (not schools) in a county is entitled to receive each month is equal to its share of the property taxes imposed in the county by the civil taxing unit.
  
- Allocation
  - One-twelfth (1/12) of the certified distribution is allocated to each county treasurer on the first day of each month from a COIT special account within the state General fund.



# Local Option Income Tax: Legacy COIT

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- Tax Rate:
  - 0.2% initially for resident county taxpayers increasing by 0.1% each year until the rate equals 0.6%.
  - After reaching 0.6%, county income tax council may pass an ordinance to increase the rate by 0.1% each year until reaching a maximum tax rate of 1.0%.
  - County income tax councils also may decrease or freeze their COIT rates.
  - COIT rate in effect for non-residents is at all times  $\frac{1}{4}$  of the tax rate imposed upon resident county taxpayers.



# Local Option Income Tax: Legacy CEDIT

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## County Economic Development Income Tax (CEDIT)

- Adopting Authority:
  - CAGIT County: Income Tax Council
  - COIT County: County Income Tax Council
- Adopting Period: April 1 – July 31
- Income Tax Rate Effective: October 1 of Year Adopted **or** Year Tax Rate is Increased



# Local Option Income Tax: Legacy CEDIT

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- Certified Distribution:
  - Allocated from a CEDIT special account (within state General fund) for distribution to counties, cities, and towns that have a capital improvement plan.
  - Uses of revenue include:
    - Economic development
    - Capital projects



# Local Option Income Tax: Legacy CEDIT

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- Certified Distributions (continued):
  - Allocated in May and November.
  - Counties also may use a portion of CEDIT revenues to provide additional homestead credits up to the total amount of the residential tax shift in the county resulting from a 100% inventory deduction (now an exemption).



# Local Option Income Tax: Legacy CEDIT

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- Allocation

- Shares are based on total property taxes first due and payable to the county, town, or city.
- A county that adopted CEDIT after June 1, 1992 may elect to distribute CEDIT shares based on population.

- Tax Rate

- CEDIT may be imposed at the following rates: 0.1%, 0.2%, 0.25%, 0.3%, 0.35%, 0.4%, 0.45%, and 0.5%.
  - CAGIT and CEDIT counties, combined rates may not exceed 1.25%.
  - COIT and CEDIT counties, combined rates may not exceed 1%.





# Local Option Income Tax: Traditional Use

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## Legacy LOIT Characteristics:

- ✓ Local Governments can diversify their revenue sources
- ✓ Reduce property tax burden
- ✓ Provide larger tax “base” – income earners, not just property owners
- ✓ Not hampered by property tax collection delays



# Local Option Income Tax: HEA 1478-2007

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Additional funding flexibility with three (3) “New” LOITs:

- **Levy Growth Replacement (Levy Freeze)**
- **Property Tax Relief**
- **Public Safety**



# Local Option Income Tax: Levy Freeze

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- **Levy Growth Replacement (Levy Freeze) LOIT:**
  - Established to replace the normal annual increase in the maximum levy calculation for local units.
  - Since this LOIT funds the normal property-tax increase (but not the increase due to new debt service or certain other funds) there will be less of an annual increase in property taxes in an adopting county.



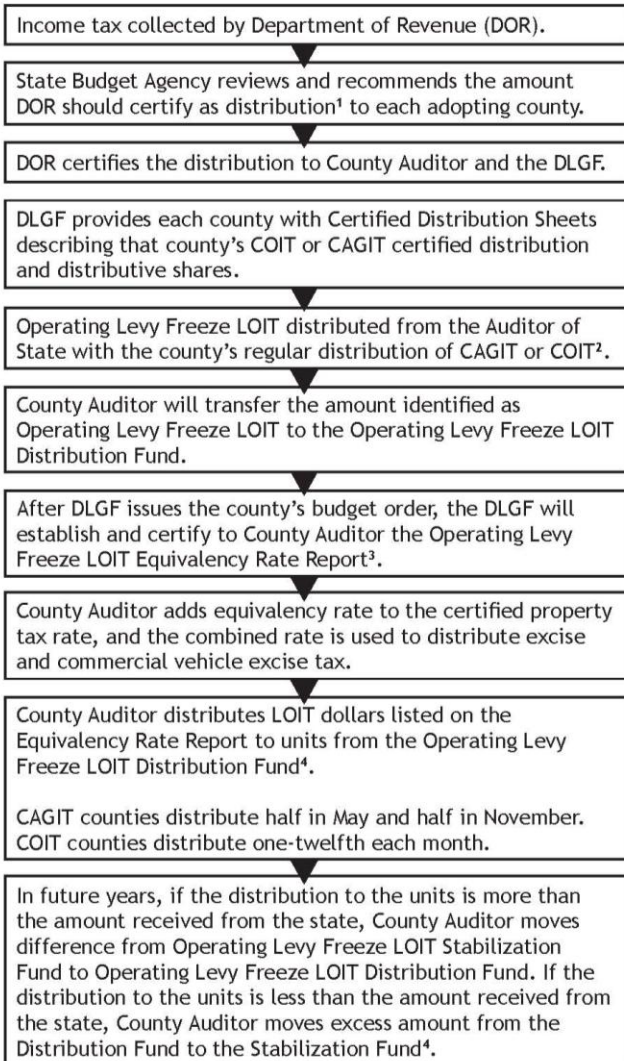
# Local Option Income Tax: Levy Freeze

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- Certified Distribution: Same as Legacy CAGIT or COIT
- LOIT proceeds that exceed the levy replacement amount are deposited into the county's stabilization fund.
- Money in the stabilization fund may be distributed to taxing units in the county in a year where the certified LOIT distributions are less than calculated levy growth for that year.



# Local Option Income Tax: Levy Freeze



## NOTES:

<sup>1</sup> By statute, certified distributions are based on the amounts reported on tax returns processed during the state fiscal year ending in the previous calendar year. Calendar year 2009 certified distributions are based on the amount reported on tax returns processed between July 1, 2007 and June 30, 2008. Those returns would represent tax liabilities from 2006 and 2007.

<sup>2</sup> In CAGIT counties, a portion of each May and November CAGIT distribution will be for the Operating Levy Freeze.

In COIT counties, a portion of each monthly COIT distribution will be for the Operating Levy Freeze.

<sup>3</sup> The report lists taxing units covered by the Operating Levy Freeze LOIT, funds subject to the Operating Levy Freeze, and LOIT dollar amounts to be distributed by County Auditor to each taxing unit.

<sup>4</sup> Operating Levy Freeze distributions by County Auditor to the taxing units will be less the first year and the excess portion will be moved from the Operating Levy Freeze LOIT Distribution Fund to the Operating Levy Freeze LOIT Stabilization Fund.

After all of the distributions have been made to the taxing units from the distribution fund and the excess balance has been moved to the stabilization fund, the distribution fund should have a zero balance.



# Local Option Income Tax: Levy Freeze

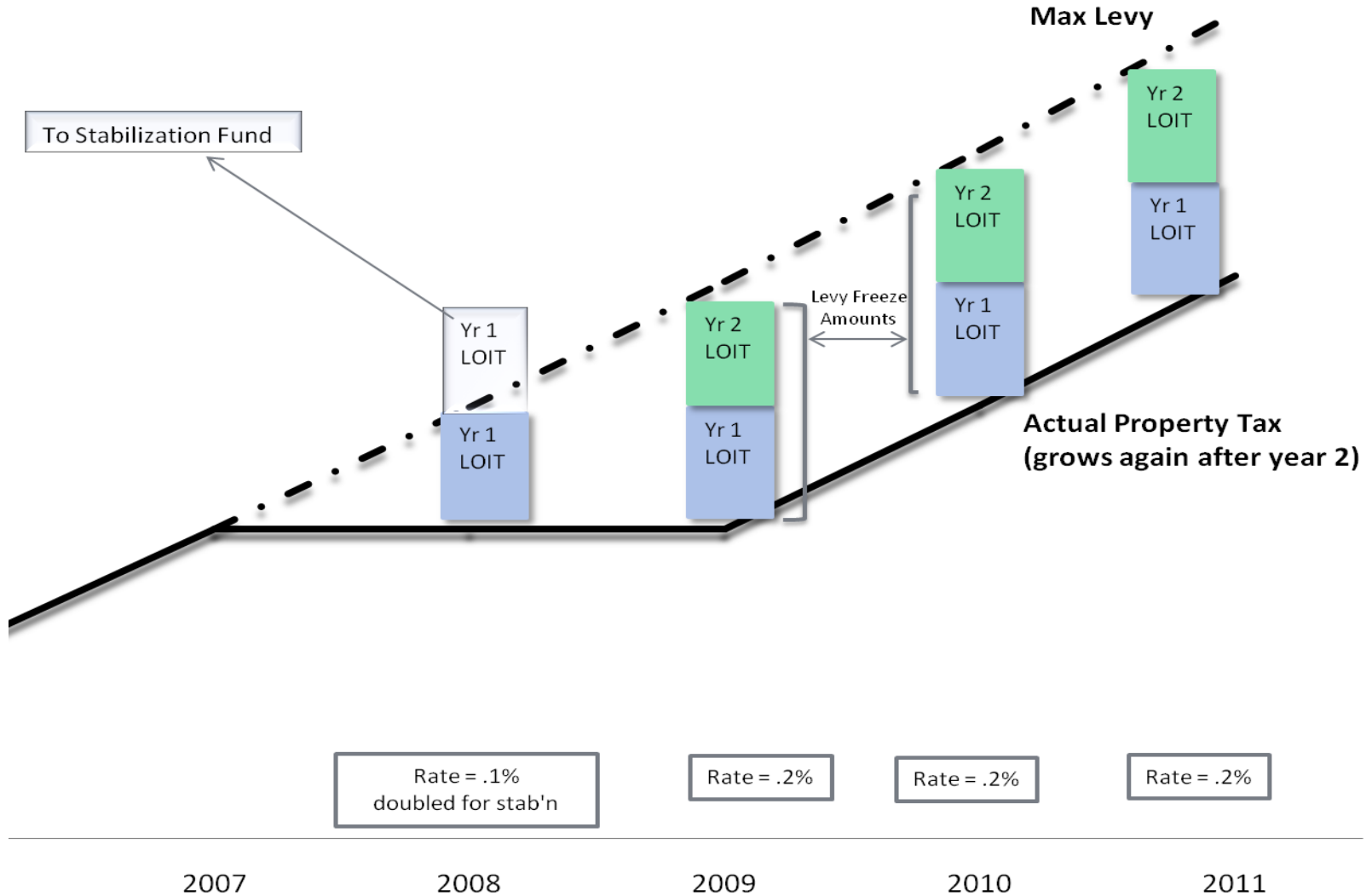
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- Tax Rate:
  - Adopted by county council (CAGIT) and COIT council (COIT).
  - Rate may not exceed 1.0%.
  - The first year the tax rate is imposed, the rate shall be set for each of the following 2 years.
    - In the initial adoption year, the rate is doubled.
    - The rate may not be reduced or rescinded, but the rate may be increased each year to replace the property tax levy growth that would occur.
  - If a county imposes a Levy Freeze LOIT, it must impose a tax rate that will generate the civil unit operating levy growth amount.





## Local Option Income Tax: Levy Freeze County Ceases to Fund Growth



*"Committed to a fair and equitable property tax system for Hoosier taxpayers."*





# Local Option Income Tax: Tax Relief

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- **Property Tax Relief LOIT:**
  - Direct property tax relief.
  - Four (4) options for how this LOIT provides property tax relief:
    - PTRC for all taxpayers in the county;
    - Homestead credit throughout the county (owner-occupied homes);
    - Residential PTRC throughout the county (homesteads, residential rental, and apartment complexes); or
    - A combination of the three above methods.



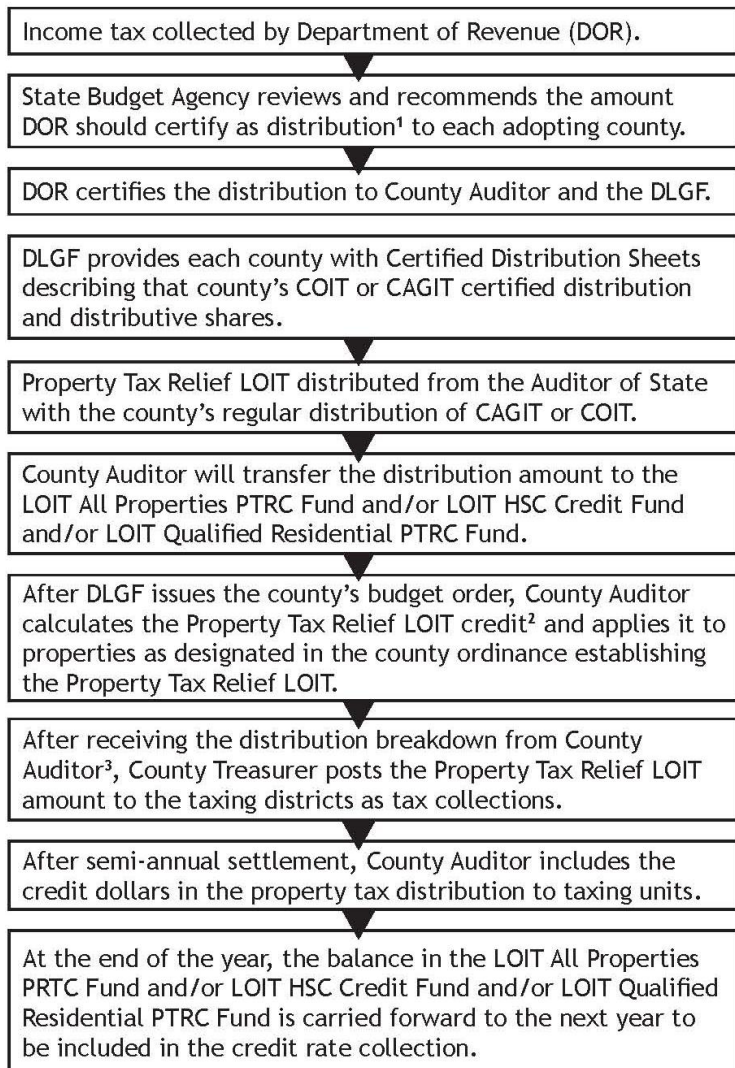
# Local Option Income Tax: Tax Relief

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- Certified Distribution: Same as Legacy CAGIT or COIT
- Tax Rate:
  - Adopted by county council (CAGIT) and COIT council (COIT)
  - County may impose a CAGIT or COIT tax rate of not more than 1.0%.



# Local Option Income Tax: Tax Relief



## NOTES:

<sup>1</sup> By statute, certified distributions are based on the amounts reported on tax returns processed during the state fiscal year ending in the previous calendar year. Calendar year 2009 certified distributions are based on the amount reported on tax returns processed between July 1, 2007 and June 30, 2008. Those returns would represent tax liabilities from 2006 and 2007.

<sup>2</sup> The Auditor of State will provide LOIT Property Tax Relief Rate Calculation Worksheets to County Auditor.

<sup>3</sup> County Auditor calculates the taxing district breakdown based on the credit amount showing on the Abstract of Taxes.

Property Tax Relief credit will be reflected in the net tax liability which is paid by the taxpayer as seen on the tax statement.



# Local Option Income Tax: Public Safety

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- **Public Safety LOIT:**

- Pays for public safety expenditures for the county and the cities and towns within the county.
  - County may impose CAGIT or COIT tax rate to fund police or fire protection, emergency medical services, corrections, pension payments, or other public safety functions.
- Provides indirect property tax relief to the extent the budgets for public safety will not have to be fully funded by property taxes.



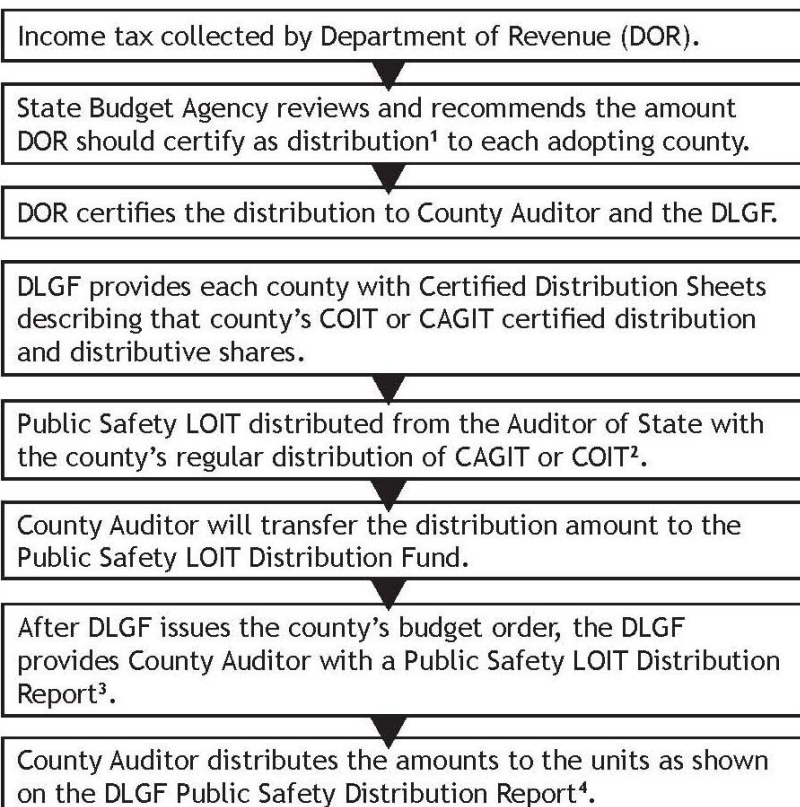
# Local Option Income Tax: Public Safety

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- Certified Distribution: Same as Legacy CAGIT or COIT
- Distribution of Revenue:
  - To county unit and to each city/town based on unit's portion of total property taxes collected by the county unit plus each city/town.
- Tax Rate:
  - County must impose:
    - Levy Freeze LOIT of at least 0.25%;
    - Property Tax Relief LOIT of at least 0.25%; or
    - Impose both taxes with a combined rate of at least 0.25%



# Local Option Income Tax: Public Safety



## NOTES:

<sup>1</sup> By statute, certified distributions are based on the amounts reported on tax returns processed during the state fiscal year ending in the previous calendar year. Calendar year 2009 certified distributions are based on the amount reported on tax returns processed between July 1, 2007 and June 30, 2008. Those returns would represent tax liabilities from 2006 and 2007.

<sup>2</sup> In CAGIT counties, a portion of each May and November CAGIT distribution will be for the Public Safety LOIT.

In COIT counties, a portion of each monthly COIT distribution will be for the Public Safety LOIT.

<sup>3</sup> The report lists the taxing units potentially entitled to a Public Safety LOIT distribution and the distribution amount.

<sup>4</sup> The Public Safety LOIT Distribution Fund will have a zero balance after all LOIT has been distributed to the units as shown on the DLGF Public Safety LOIT Distribution Report.



# Local Option Income Tax: HEA 1478-2007

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## Characteristics of New LOITs:

- ✓ Revenue is *in addition* to existing income taxes
- ✓ *Outside* of Unit's Maximum Levy/Levy Controls
- ✓ Levy Freeze LOIT included for calculation of other revenues distributed with property taxes
- ✓ LOIT results in a shift of the tax burden from property owners to income earners.



# Contact Us

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